Introducing the UK Human Capital Trends 2016 report

I am delighted to share the key findings from Deloitte’s 2016 Global Human Capital Trends survey. Over 7,000 HR and business leaders, in 130 countries, participated in Deloitte’s Global Human Capital Trends Survey in 2016; 140 of these were based here in the UK. This special excerpt of the report summarises the key trends and priorities for HR and business leaders in the UK and is designed to complement the global report.

The key theme of the report this year, “The new organisation: Different by design,” reflects our strong conviction that in 2016 business leaders must radically evolve their organisation to cope with a series of new disruptors. These include a raft of demographic changes that have made the workforce both younger and older, and are driving the need for talent solutions that meet the needs of multiple generations; the rise of digital technology; the increased pace of change in business models; and a shift in the way the psychological contract between employer and employee works, with employees looking to move employer more frequently in the course of their careers. To tackle these challenges, HR must play a critical role in supporting the business in its own transition to a new organisation; to do so effectively, however, it must itself be fully prepared to embrace change.

This year’s survey findings confirm this view: while both globally and in the UK the critical trends from previous years, such as culture, leadership and engagement remain important, for the first time organisational design came in top in the ranking of trends. This trend focusses specifically on the deconstruction or re-imagining of workplace structure and the shift from top-down hierarchy to a network of teams to deliver results faster.

We can also see there is much to be done to address these trends and we should not be deceived by the relative slippage of last year’s top 3 trends down the rankings. The percentage of respondents saying leadership was important actually went up by 2 percent in the UK, even as it slipped in the rankings from number 1 to number 3. Moreover, the perceived ability of organisations to tackle this trend, as with many others, has actually increased year on year. In general then, it would seem that many of the trends for the UK are actually getting more urgent rather than less, and have yet to be successfully addressed.

We hope this country report provides your organisation with insights into the key challenges and opportunities on the horizon for HR in the UK. I would also encourage you to look at the much more detailed global report and interactive survey dashboard available at www.deloitte.co.uk/hctrends to explore the global and UK results further.

Anne-Marie Malley
UK Human Capital Leader
Global Human Capital Trends 2016
Defining this year’s top 10 trends

Our survey of 7,000 HR and business leaders globally examined 10 critical trends shaping the human capital agenda.

Organisational design: The rise of teams
Hierarchical organisational models aren’t just being turned upside down – they’re being deconstructed from the inside out. Businesses are reinventing themselves to operate as networks of teams to keep pace with the challenges of a fluid, unpredictable world.

Design thinking: Crafting the employee experience
Design thinking takes aim at the heart of unnecessary workplace complexity by putting the employee experience first – helping to improve productivity by designing solutions that are at once compelling, enjoyable and simple.

Leadership awakened: Generations, teams, science
Leaders of all ages, genders, and cultures are now poised to take the reins at organisations around the world. How ready will these future business leaders be to take charge in an increasingly complex global marketplace?

HR: Growing momentum toward a new mandate
Good news: this year’s Global Human Capital Trends survey shows an improvement in the HR organisation’s skills, business alignment, and ability to innovate. But as companies change the way they are organised, they must embrace the changing role of HR as well.

Culture: Shape culture, drive strategy
The impact of culture on business is hard to overstate: 82 percent of respondents to the 2016 Global Human Capital Trends survey believe that culture is a potential competitive advantage. Today, new tools can help leaders measure and manage culture towards alignment with business goals.

People analytics: Gaining speed
The use of analytics in HR is growing, with organisations aggressively building people analytics teams, buying analytics offerings, and developing analytics solutions. HR now has the chance to demonstrate ROI on its analytics efforts, helping to make the case for further investment.

Engagement: Always on
Employee engagement and retention today means understanding an empowered workforce’s desire for flexibility, creativity, and purpose. Under the evolving social contract between employer and employee, workers become “volunteers” to be re-engaged and re-recruited each day.

Digital HR: Revolution, not evolution
A new world for HR technology and design teams is on the horizon. Mobile and other technologies could allow HR leaders to revolutionise the employee experience through new digital platforms, apps, and ways of delivering HR services.

Learning: Employees take charge
Corporate learning departments are changing from education providers to content curators and experience facilitators, developing innovative platforms that turn employee learning and development into a self-driven pursuit.

The gig economy: Distraction or disruption?
How can a business manage talent effectively when many, or even most, of its people are not actually its employees? Networks of people who work without any formal employment agreement – as well as the growing use of machines as talent – are reshaping the talent management equation.

Learn more: www.deloitte.co.uk/hctrends
Top trends in 2016 for the UK
Organisational design emerges as the top UK trend but culture and leadership remain a concern

Respondents rated each of the trends on a four point scale, from “not important”, through “somewhat important,” “important” and “very important”. By counting only the percentage of “important” and “very important” responses, a relative ranking was produced (see Figure 1 below). On this basis, the top five trends for the UK are:

1. Organisational design;
2. Culture;
3. Leadership;
4. Engagement; and
5. People analytics.

Figure 1. Top UK and global trends by urgency and importance

Organisational design has emerged as a new trend and jumped straight to the top of the list, with 92 percent of respondents ranking it as “important” or “very important”. Yet, only 9 percent of UK organisations believe that they are “very ready” to effectively redesign their organisation. This year’s survey reports that there is a need to move from traditional, functionally organised structures to mission-based “networks of teams” that share common goals. However, 30 percent of large companies in the UK are still organised functionally today and only 4 percent report that they feel expert at understanding the way their people work together in networks.

The capability gap on key trends remains high in the UK and has been growing year on year. Overall, the average capability gap in the UK in 2015 was 22 percent and in 2016 it has jumped to 40 percent. Even accounting for some methodological differences between surveys, this is a striking statistic, the reasons for which will be examined later in this report.

People analytics and Digital HR are seen as relatively more important in the UK than globally: This could be due to a greater number of respondents from large, knowledge based organisations (such as Financial and Professional Services) in the UK, which tend to be more attuned to technology innovation.

As in previous years, the global and UK results are not hugely different. With some small exceptions, as Figure 1 illustrates, the UK results mirror the global results quite closely. This is not surprising given the large number of respondents from multinational organisations, with many of the UK-based respondents working for organisations headquartered outside the UK.
Top trends compared to last year
An increased sense of urgency around all of the trends, in comparison to 2015

Figure 2 shows the ranking of the 2016 trends relative to 2015, and indicates whether, and by how many places, they have risen or fallen since last year.

A majority of trends have fallen relatively in the rankings due to new entries into the list, but their importance in absolute terms has not diminished. Rather, there has been a relative increase in overall urgency. For example, last year the number 1 trend (leadership) achieved an 86 percent Importance rating, meaning this year, with that same rating, it would still have been ranked third, beaten by both culture and organisational design (at 87 percent and 92 percent respectively). Learning came fourth last year, with 72 percent, but has slipped to seventh place this year, despite its Importance rating increasing by 2 percent.

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Taken together with the observation previously made, that the overall capability gap – or readiness of organisations to address trends versus their importance – has almost doubled here in the UK, this sense of increasing urgency could be cause for concern. The reasons may lie in how the planned increases in HR funding have been invested. Last year, we noted that 5 out of 10 organisations planned to increase spending on HR projects, but the majority of the increases in expenditure seemed to be taken up by HR technology implementation (over 50 percent of respondents were planning investment in the Cloud or talent related IT systems). Much of this investment would, in all likelihood, have had little to no impact on UK organisations’ readiness to address the majority of the top trends.

<table>
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<tr>
<th>2015</th>
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<tbody>
<tr>
<td>1 Organisational design</td>
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<td>9 Design thinking</td>
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<td>10 The gig economy</td>
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A spotlight on the top 3 trends

1. Organisational design: The rise of teams

Rapidly evolving technology, changing consumer behaviour and disruptive competition from unexpected sources are factors that are forcing businesses to review their organisation structures at a faster rate than ever before. Organisational design has become the number one agenda item for boardroom conversations, both globally and in the UK. The statistics are indicative of this: 90 percent of the UK respondents to this year’s global survey are either currently restructuring their organisation or have recently completed the process. And 59 percent of executives report that their current organisation structure is either “not effective” or only “partially effective” in achieving their company’s goals.

The biggest underlying organisation design trend that we have observed across industries is ‘the rise of teams’. This may not be the headline that characterises the large number of recent redesign programmes or the ones that are underway currently. In fact, the more eye-catching themes or headlines for organisation redesign tend to be related to becoming ‘customer centric’, ‘enabling seamless omni-channel experience’, ‘insight driven’, ‘driving growth and innovation’, ‘agile decision making’ and last but not least becoming ‘a digital enterprise’. But the ‘rise of teams’ refers to something arguably much more fundamental: to organisations’ attempts to break down established silos and hierarchies by bringing together highly empowered and dynamic project based, multi-disciplinary teams.

As an example: A large, global consumer products branded business has an ambitious growth plan to grow its online channel sales multiple times in the next 4-5 years. The organisation is characterised by established functional silos and powerful markets, which comes in the way of driving their online ambition with clarity. The route that this business has taken is to create an independent digital team, drawing multi-disciplinary teams from marketing, sales, supply chain and IT, with an executive level leader who is empowered to drive the online ambition and the associated organisation transformation.

Another example is TfL. TfL’s Fit For the Future Programme is one of the largest transformation programmes in TfL’s history with an objective to fundamentally redesign the operating model for London Underground’s 270 stations to improve efficiencies, take advantage of new technologies and ultimately improve customer experience. To achieve this radical transformation a new approach to ‘teaming’ across TfL has been required. Organisational structures and silos needed to be put to one side, as a number of functions and directorates came together to plan and deliver the programme. The programme team was constituted intentionally from individuals from across the business to breed a one team culture and all programme proposals were developed collaboratively between the programme and BAU so they would be realistic and implementable. The brand “Fit for the Future” was developed to ensure this was seen as an organisational change as opposed to a programme operating in a silo. This ‘one team’ approach has had clear benefits. The programme will go live in April 2016 on time and on budget with significant buy-in from staff and stakeholders.

This trend is potentially revolutionary. With the ‘rise of teams’, the days of the top-down hierarchical and functionally driven organisation are slowly coming to an end – and it is not just the start-ups and “new-age” companies that are challenging the status quo. Many traditional organisations are now, more than ever, looking to empower cross-functional teams, hold them clearly accountable for defined objectives. And in order to support them these organisations will often need to focus on building a culture of shared information, shared vision, and shared direction in which they can operate.

Figure 3. Understanding and designing organisational structure
A spotlight on the top 3 trends
2. Culture: Shape culture, drive strategy

Culture – which serves to bind people together and helps people communicate and collaborate – remains a top focus area for UK businesses. Although knowing how to appropriately define and develop the right culture remains a significant challenge. More than 8 in 10 organisations in the UK see culture as being “important” or “very important”. Yet, only 37 percent of organisations believe they understand their culture well and only 21 percent believe they are “very ready” to change it.

Why are so few organisations ready to change their culture?

In part, it is because focussing on culture has become an expectation without a specific and tangible understanding of how and why organisations are doing it. Put differently, organisations would be better off by looking at culture as an enabler to achieving business strategy and a driver of employees’ behaviour and performance.

84 percent of respondents to the UK survey believe that “culture is a potential competitive advantage”, whilst only 33 percent believe they have the “right culture.” This reiterates the importance of getting to grips with organisational culture and thinking about what the “right culture” really means in the context of business strategy. To build and drive the desired culture, it must be understood, owned and role modelled at the highest level by the CEO, and the rest of the C-Suite.

The gap for organisations is knowing what to do: knowing how to see through regulatory requirements (particularly in Financial Services) to articulating and embedding the desired culture, both internally (for employees) and externally (for customers), on a case by case basis. This can be achieved by bringing together culture and strategy in an organisational cultural narrative (“the story of culture”), then sharing this narrative so that it is understood throughout the organisation.

Many UK organisations have started the culture change journey, with 60 percent of survey respondents already focussing on culture in response to shifting talent markets and increased competition. A top tip for these organisations, and those that are about to start that journey: start with understanding your current culture, and the processes and behaviours that are both aligned with and destructive to the desired culture. Then, ensure that you define a desired culture that is aligned with business strategy and linked to values and behaviours. This will provide you with a sound starting point to prioritise the specific interventions to address the gap – whether at a leadership, employee or organisational level.

Figure 4. Understanding, aligning and driving culture

Aligning our employees and personal goals with corporate purpose

Understanding of your workplace culture today

Effectively driving the desired culture

- Weak 20%  Adequate 52%
- Excellent 28%

- Weak 22%  Adequate 41%
- Excellent 37%

- Weak 23%  Adequate 43%
- Excellent 33%
A spotlight on the top 3 trends
3. Leadership awakened: Generations, teams, science

As in 2015, Leadership continues to be a top concern for the C-suite this year, with 82 percent of UK organisations surveyed rating leadership as “important” or “very important”; and 21 percent of respondents reporting weak or very weak leadership pipelines.

With increasing volatility, uncertainty, change and ambiguity in global markets and a workforce that is increasingly ‘millennial’, our survey suggests that leaders are becoming overwhelmed by the breadth and depth of challenges they face. UK organisations are still not confident in their ability to attract, develop and retain high potential millennial leaders, with only 11 percent of our respondents rating themselves as ‘excellent’ at building millennial leaders.

This is hardly surprising given the pace and nature of corporate change. With the changes to corporate structure that we have called the ‘rise of teams’, companies now require different types of leaders. Yet, the traditional pyramid-shaped leadership development model is simply not producing leaders fast enough to keep up with these changes.

In the ever-evolving business environment there is a seemingly ever-greater demand for leaders to collaborate and innovate, requiring them to effectively build strategic alliances both inside and outside of their organisations. But how can you train or develop someone to do this? The answer is: it takes time, and the right kind of focus. Establishing sustainable, effective mechanisms for leadership assessment and development, based on a common definition of what leaders need to deliver, is now, and always will be, a key competitive differentiator.

There is an increasing focus on developing the leadership succession plan, through identifying and nurturing high potential at all leadership levels and in moving away from ‘classroom’ learning to learning through targeted experiences. And here in the UK as well as globally, we are also seeing a shift towards organisations asking for more structured and scientific solutions to identifying, assessing and developing leaders, which can also provide demonstrable business impact.

Figure 5. Leadership programme offerings

Maintaining clear and current succession plans and programmes

- Weak 34%
- Adequate 53%
- Excellent 13%

Including global skills and experiences in leadership programmes

- Weak 45%
- Adequate 45%
- Excellent 10%

Providing focused leadership programmes for millennials

- Weak 58%
- Adequate 31%
- Excellent 11%
Respondents were asked what the HR investment trend was for 2016 in their own organisation and where they felt their organisations were placed in terms of the overall business cycle.

Compared to 2015, respondents predicted a significantly lower level of HR investment over the coming 12-18 months. Last year, 20 percent expected a significant increase in investment in HR, this year the number fell to 7 percent.

This predicted drop in investment is something that might be anticipated given the current trend towards increased back office efficiency among UK corporates, along with rising perceptions of “slowing but steady” business growth.

It is possible that this reduced investment in HR will exacerbate the increasing capability gap we have seen across the trends over the past three years, and the sense of opportunities missed and / or issues piling up that the survey data implies.

It is important to note, however, that according to our survey more than 4 in 10 UK companies are still planning to increase HR spending in the next 12-18 months. The core question here remains: how do we ensure that the investments being made will really result in improved outcomes for HR and the business?

In spite of the increase in overall urgency we have observed across the Human Capital Trends this year, when it comes to the rating of HR and Talent programmes capability there is some good news. Here we have seen a significant improvement. As Figure 6 shows, HR and Talent programmes in the UK are now largely performing at an adequate, good or excellent level. But even here there is still more work to be done, as more than a quarter of HR organisations (31 percent) are still underperforming or just getting by.
The 140 UK respondents who participated in this year’s survey represent a broad mix of small, medium and large organisations.

While a wide range of industry sectors are represented, over half of survey responses came from four main industries, skewed towards Finance, Professional Services, Consumer Businesses and Technology, Media and Telecommunications (see Figure 7 left).

The majority of respondents (93 percent) hold a Mid-Level or C-Suite position within their organisations and nearly two-thirds (64 percent) of these respondents work within the HR function.
To start a new section, hold down the apple+shift keys and click to release this object and type the section title in the box below.

About this report
This report, focusing specifically on human capital trends in the UK, was designed to complement the Deloitte Global Human Capital Trends 2016 report – “The new organisation: Different by design”, which is based on a comprehensive global survey of more than 7,000 business leaders and HR executives in 130 countries. This report specifically examines the UK results, based on 140 UK respondents.

We invite you to explore the full report at www.deloitte.co.uk/hctrends and to explore the results in the interactive dashboard at www.deloitte.com/hcdashboard.

Conclusion
Addressing the growing gap

The majority of this year’s top trends are business issues, not merely HR issues.

To help make a shift to “the new organisation”, HR has an opportunity to step up as a valued business consultant and partner with the business to understand, create and embed a shared culture, to design a work environment that effectively engages people and to develop a new model of leadership and career development.

However, the gap between the need and the reality seems to be growing, and resources and attention are required to address the starkly growing capability gap that is impacting most of the top trends. In the UK, this gap has almost doubled in the last 12 months.

On the positive side, 40 percent of organisations in the UK appear to be increasing HR investment. But it is possible that, as in previous years, much of this additional investment will be earmarked for HR IT, as opposed to directly addressing the types of complex people and organisational trends examined in this report. And, of course, this means that 60 percent of UK organisations will either maintain the status quo or actually reduce HR investment over the next 12-18 months, even against the general backdrop of increasing urgency across the trends. For the majority then, if appropriate action is not taken, it seems likely that the capability gap against the top Human Capital trends will continue to grow, as will the sense of urgency.

UK HR and business leaders have a lot of work to do and will need to move quickly and in lockstep, as the pace of business change is getting faster than ever. HR must effectively leverage the skills and capabilities they have been building over the last few years, but will need to upgrade them to include the areas of design thinking, people analytics and behavioural economics.

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